

MEMORANDUM OF UNDERSTANDING BETWEEN
BUREAU OF FEDERAL CREDIT UNIONS, CENTRAL
INTELLIGENCE AGENCY, AND NORTHWEST FEDERAL
CREDIT UNION (Charter No. 3603)

Because of the substantial involvement of many members of Northwest Federal Credit Union in matters having significant effect upon the national security, informal understandings have been in effect for a number of years by which the Bureau of Federal Credit Unions, in the interest of supporting the Central Intelligence Agency's need to shield such information, has subordinated some of its normal prerogatives and statutory responsibilities as the supervising authority of Federal credit unions with respect to the Northwest Federal Credit Union.

It appears that the interests of CIA, BFCU, and the members of the Northwest Federal Credit Union now require a delineation of the areas of responsibility to be assumed by the three organizations as they relate both to the credit union and to each other.

The major limitation imposed upon the Bureau of Federal Credit Unions because of the Agency's security precautions is the preclusion of verification of data independently and directly with the credit union membership. In the absence of an effective alternative, the effect could be the nullification of other examination procedures. It should also be clearly understood that certain restrictions imposed by the Agency upon normal operating practices of the credit union could adversely affect the financial interests of the credit union members.

In order to properly acknowledge the interests of all concerned, it is appropriate that there be a division of certain responsibilities as follows:

1. While the Bureau of Federal Credit Unions will continue its policy of not permitting its employees to penetrate the security protection that would be involved by direct account verification with Northwest Federal Credit Union members, the Central Intelligence Agency, the board of directors and the supervisory committee of the Northwest Federal Credit Union will assume full responsibility for verification, as required by the Federal Credit Union Act of the supervisory committee, or as may be needed by the Bureau of Federal Credit Unions in any particular instance. In cases where positive assurances that verifications have been made are deemed necessary by the Bureau of Federal Credit Unions, certification to this effect will be provided by either the credit union supervisory committee or the Agency.

2. In order that examinations or other contacts with the credit union by the Bureau of Federal Credit Unions shall be on a surprise basis, and without prior notice to the credit union operating staff, the Bureau staff will be immediately escorted to the credit union by a member of the Agency's security staff.

3. The Agency and the credit union supervisory committee will periodically, and not less frequently than annually, review and evaluate the Agency and credit union internal controls applicable to credit union transactions and verifications conducted through Agency intermediaries between the members and the credit union. The Agency's intermediaries shall act as agents of the Agency, not as agents of the credit union members.

Similar reviews and evaluations will be made of procedures pertaining to any sensitive accounts which do not involve intermediaries.

4. The Bureau of Federal Credit Unions will utilize the safe to be furnished by CIA for the control of classified data received from the credit union. These security precautions will also be applied to like data in the BFCU examination reports of the credit union. The same security precautions will be applied to portions of the examination reports which identify the names of credit union members, or which disclose or indicate the number of members in the credit union. Such information will be accessible only to Bureau of Federal Credit Unions personnel who have received clearance from the Central Intelligence Agency except that names of directors, committeemen, and employees of the credit union will continue to be available to any BFCU staff having need of the information.

5. Northwest Federal Credit Union will comply with requirements established by BFCU for Federal credit unions and will follow all normally accepted business practices except where Agency security requirements make modifications unavoidable.

6. The Central Intelligence Agency recognizes its responsibility to protect the credit union members from those losses which would have a significant effect upon the financial position of the credit union and which occur as a direct result of the application to the credit union of security requirements which prevent the credit union from avoiding such losses through normal business practices. Recognition is given to the fact that the credit union derives benefits from assistance and services provided by the Agency and these stipulations are not intended to bind the Agency to protect the credit union from an occasional minor

loss that may be related to the application of some security restrictions. Examples of existing restrictions which could increase the likelihood of either minor or significant losses are:

a. The credit union may not utilize regular commercial methods in securing certificates of title and evidence of insurance for personal property pledged as security for loans.

These restrictions pertaining to establishing the credit union's claim to property against third persons also handicap the Bureau of Federal Credit Unions in determining that loans which must have security are in fact adequately secured as required by the Federal Credit Union Act.

The Bureau of Federal Credit Unions will recognize these restrictions and will consider loans made under such restrictions as adequately secured provided the Agency agrees as stated before, to protect the credit union from losses occurring as a direct result of such restrictions.

b. Since the Credit Union may not employ collection agencies or legal procedures to collect delinquent loans without the Agency's approval of the procedures and the firm or persons employed to seek recovery, the Agency agrees to indemnify the credit union for any losses on loans outstanding to such delinquent borrowers which result from failure to have access to normal collection procedures.

c. The Agency's permission is required before a claim is filed under the credit union's surety bond. In those cases in which the withholding of such permission would nullify the effect of the surety bond coverage (financial protection) which the Bureau requires under the Federal Credit Union Act and formal Rules and Regulations, the Agency agrees to reimburse the credit union for any surety bond claim which the credit union would otherwise normally collect from the surety.

d. Indemnification by the Agency in accordance with the above will be the subject of negotiations between the NWFCU and the Agency in light of the facts of the given case. It is understood that the amount of indemnification will not necessarily be the total amount of the loss incurred by the NWFCU but, rather, will reflect the best judgment of the Agency and the NWFCU as

to what amount of the actual loss could have been recovered had the NWFCU been allowed to follow normal credit union practices.

In recognition of the need for protecting national security, the Central Intelligence Agency, the Northwest Federal Credit Union, and the Bureau of Federal Credit Unions agree to the foregoing areas of responsibility specifically mentioned above for each of the three organizations and are so indicating such agreement by having affixed below the signatures of the three officials who can bind the said three organizations.

STATINTL

Title: Deputy Director for Support
Central Intelligence Agency

1 Feb 65
Date

Michael J. Dever
Title: Director, Bureau of Federal Credit Unions

9 Feb 65
Date

STATINTL

John J. O'Farrell
Title: President, Northwest Federal Credit Union

3 Feb 65
Date

DD/S Distribution:

Orig -
• - D/Fin
• 1 - DD/S Subject
• 1 - DD/S Chrono